

CITY OF STURGIS
STURGIS, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008

CITY OF STURGIS

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-11
<i>Government-Wide Financial Statements:</i>	
Statement of Net Assets	12
Statement of Activities	13
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds.	14
Reconciliation of Governmental Funds Balance Sheet to Government-Wide Statement of Net Assets	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16-17
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to Government-Wide Statement of Activities	18
Balance Sheet – Proprietary Funds	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds.	21
Statement of Fiduciary Net Assets	22
Notes to Financial Statements	23-38
<i>Required Supplementary Information:</i>	
Budgetary Comparison Schedule – Budgetary Basis – General Fund	39-40
Budgetary Comparison Schedule – Budgetary Basis – Capital Improvement Fund	41
Budgetary Comparison Schedule – Budgetary Basis – Park Fund	42
Notes to Required Supplementary Information	43
<i>Other Supplementary Information:</i>	
Combining Balance Sheet – Nonmajor Governmental Funds.	44-45
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	46-47
Schedule of Rally Activities	48

CITY OF STURGIS

TABLE OF CONTENTS (CONTINUED)

Other Reports

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	49-50
Auditor's Comments and Closing Conference	51-54



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INDEPENDENT AUDITOR'S REPORT

City Council
City of Sturgis
Sturgis, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF STURGIS** (the City), Meade County, South Dakota, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11, and the required supplementary budgetary information on pages 39 through 43, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

City Council

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining non-major fund financial statements and schedule of rally activities are presented for purposes of additional analysis and are not a required part of the basic financial statements. These financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP
Certified Public Accountants

October 1, 2009

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008

This section of the City of Sturgis' annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended on December 31, 2008. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$1,034,412 more than the \$8,215,487 governmental program expenditures. This does not take into account any transfers in/out or any activity due to the disposal of fixed assets. The overall change in net assets, transfers included, in Governmental activities increased 7 percent compared to last year. The increase was due to the decrease in Debt Service and an increase in transfers.
- In the City's business-type activities, revenue exceeded expenses by \$71,887; this includes transfers and any activity due to the disposal of fixed assets. The overall change in net assets in business-type activities increased less than 1 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements (including related notes), and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services like public safety were financed in the short-term, as well as what remains for future spending.
 - Proprietary fund statements offer short-term and long-term financial information about the activities that the City operates like businesses. The City has four proprietary funds – the Liquor Fund, Water Fund, Wastewater Fund, and Sanitation Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required elements, we have included a section with combining statements that provide details about our non-major governmental funds, each of which are added together and presented in a single column in the basic financial statements.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds and the fiduciary component units)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer systems
Required Financial Statements	*Statement of Net Assets *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures, and Changes in Fund Balances	*Balance Sheet *Statement of Revenues, Expenses, and Changes in Net Assets *Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Government-wide Statements (Continued)

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health or position.

- Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in three categories:

- **Governmental Activities** -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants, and interest earnings finance most of these activities.
- **Business-type Activities** -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's liquor, water, wastewater, and sanitation funds are included here.
- **Component Units** -- The City does not have any component units.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. State Law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

- **Governmental Funds** – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds' statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short-term and long-term financial information. The City's enterprise funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets increased by 4 percent between fiscal year 2007 and 2008. (See Table A-1).

Table A-1 Summarized Statement of Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and Other Assets	\$ 6,616,273	\$ 5,351,259	\$ 2,424,415	\$ 2,192,616	\$ 9,040,688	\$ 7,543,875
Capital Assets	30,040,943	28,971,058	15,631,032	15,789,519	45,671,975	44,760,577
Total Assets	\$ 36,657,216	\$34,322,317	\$ 18,055,447	\$17,982,135	\$ 54,712,663	\$52,304,452
Long-Term Debt	\$ 9,804,791	\$ 9,141,051	\$ 43,968	\$ 45,045	\$ 9,848,759	\$ 9,186,096
Other Liabilities	213,859	325,925	213,941	211,439	427,800	537,364
Total Liabilities	10,018,650	9,466,976	257,909	256,484	10,276,559	9,723,460
<i>Net Assets:</i>						
Invested in Capital Assets, Net of Related Debt	20,402,581	19,996,241	15,631,032	15,789,519	36,033,613	35,785,760
Restricted	3,469,467	1,450,753	-	-	3,469,467	1,450,753
Unrestricted	2,766,518	3,408,347	2,166,506	1,936,132	4,933,024	5,344,479
Total Net Assets	\$ 26,638,566	\$24,855,341	\$ 17,797,538	\$17,725,651	\$ 44,436,104	\$42,580,992
Beginning Net Assets	24,855,341	22,624,263	17,725,651	17,418,096	42,580,992	40,042,359
Increase in Net Assets	\$ 1,783,225	\$ 2,231,078	\$ 71,887	\$ 307,555	\$ 1,855,112	\$ 2,538,633
Percentage of Increase in Net Assets	7%	10%	0%	2%	4%	6%

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components -- the amount due within one year and the amount due in more than one year. The long-term liabilities of the City, consisting of compensated absences payable, sales tax revenue bonds payable, general obligation bonds payable, tax increment financing, and capital leases, have been reported in this manner on the Statement of Net Assets. The difference between the City's assets and liabilities is its net assets.

Changes in Net Assets

The City's revenues totaled \$14,039,899. (See Table A-2.) Well over half of the City's revenue comes from charges for services and taxes, with 48 cents of every dollar raised coming from charges for services (primarily liquor and water operations) and 40 cents of every dollar raised coming from some type of tax. (See Figure A-2.) Of the City's total revenue, 8 percent comes from state and federal grants for capital purposes, and the rest comes from operating grants, contributions, state shared revenue, interest and miscellaneous.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

The total cost of all programs and services was \$12,035,587. The City's expenses cover a range of services, including road maintenance, parks and recreation services and sewer system services. (See Figure A-3).

Figure A-2: Sources of Revenue for 2008

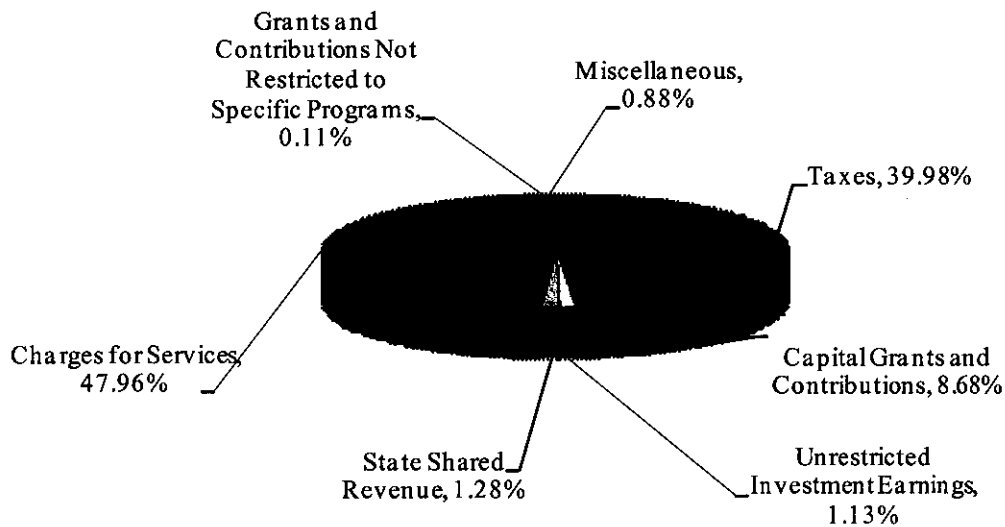
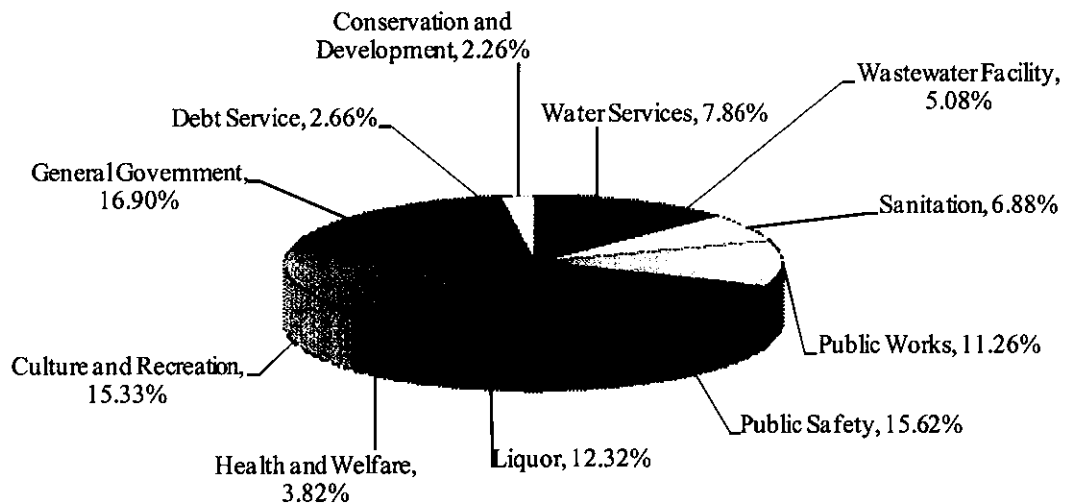


Figure A-3: Functional Expenses for 2008



CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Concluded)

Table A-2 and the narrative that follows consider the operations of the governmental and business-type activities.

Table A-2 Changes in Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program Revenues						
Charges for Services	\$ 2,369,792	\$ 2,357,946	\$ 4,337,288	\$ 4,365,134	\$ 6,707,080	\$ 6,723,080
Operating Grants and Contributions	55,943	-	-	55,362	55,943	55,362
Capital Grants and Contributions	798,526	816,111	414,788	-	1,213,314	816,111
General Revenues						
Taxes	5,590,980	5,625,538	-	-	5,590,980	5,625,538
State Shared Revenue	178,354	183,396	-	-	178,354	183,396
Grants and Contributions not Program Specific	14,845	264,910	-	-	14,845	264,910
Unrestricted Investment Earnings	122,765	158,918	34,748	42,235	157,513	201,153
Miscellaneous	118,694	116,355	3,176	-	121,870	116,355
Total Revenues	9,249,899	9,523,174	4,790,000	4,462,731	14,039,899	13,985,905
Expenses						
General Government	\$ 2,008,138	1,837,010	-	-	2,008,138	1,837,010
Public Safety	1,856,091	1,837,728	-	-	1,856,091	1,837,728
Public Works	1,338,036	1,111,801	-	-	1,338,036	1,111,801
Health and Welfare	454,433	343,290	-	-	454,433	343,290
Culture and Recreation	1,821,817	1,918,240	-	-	1,821,817	1,918,240
Conservation and Development	268,505	251,497	-	-	268,505	251,497
Debt Service	316,670	613,494	-	-	316,670	613,494
Liquor	-	-	1,464,264	1,375,481	1,464,264	1,375,481
Water Services	-	-	934,209	812,523	934,209	812,523
Wastewater Services	-	-	604,025	643,429	604,025	643,429
Sanitation Services	-	-	817,602	838,623	817,602	838,623
Miscellaneous	151,797	-	-	-	151,797	-
Total Expenses	8,215,487	7,913,060	3,820,100	3,670,056	12,035,587	11,583,116
Excess Before Transfers	1,034,412	1,610,114	969,900	792,675	2,004,312	2,402,789
Transfers	748,813	485,120	(898,013)	(485,120)	(149,200)	-
Increase in Net Assets	\$ 1,783,225	\$ 2,095,234	\$ 71,887	\$ 307,555	\$ 1,855,112	\$ 2,402,789
Prior Period Adjustment	-	135,844	-	-	-	135,844
Ending Net Assets	\$ 26,638,566	\$ 24,855,341	\$ 17,797,538	\$ 17,725,651	\$ 44,436,104	\$ 42,580,992

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2008

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

Total revenues of the Governmental Activities for the city decreased by 3 percent compared to the prior year, while total expenses increased by 4 percent. The primary reason for the decrease of revenue is that the City had fewer grants and contribution due to fewer projects being done. The increase in expenses was primarily due to normal increases in wages and benefits and the price of fuel.

Business-Type Activities

Operating revenues of the City's business-type activities increased by 7 percent to \$4,790,000. This increase is due to Capital contributions from TIF's 7, 8 and 9 water and sewer lines. The operating expenses increased by 4 percent to \$3,820,100. This overall increase in expenses was primarily due to normal increases in wages and benefits and the price of fuel.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains governmental fund types - General, Special Revenue Funds (including the Capital Improvement Fund), Debt Service Funds, Capital Projects Funds and Permanent Funds. The City also maintains four business type funds - Liquor, Water, Wastewater, and Sanitation Funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget seven times. These amendments fall into two categories:

- Increases in appropriations from donations and grants.
- Increase in appropriations to prevent budget overruns.
- Supplemental appropriations for library services that are funded through Meade County and Meade School District No. 46.

The General Fund significant budget variances are as follows:

- General Government - Other- \$561,263 - In 2008 the Rally/Sponsorship was budgeted as an enterprise fund not in General Fund.
- Public Safety - Police - \$238,841 - Rally Police was budgeted in the Enterprise fund not the General Fund.
- Culture and Recreation - Recreation - \$206,644 - the Community Center Roof was originally budgeted in the Sanitation Fund
- Culture and Recreation - Parks - Rally Parks was budgeted in the Enterprise fund not the General Fund.

The Capital Improvement Fund significant budget variance is as follows:

- Debt Service - \$5,430,752 - we did not budget for the refinancing of bonds that took place in 2008.

CAPITAL ASSET ADMINISTRATION

By the end of 2008, the City had invested \$45,671,975 in a broad range of capital assets, including, land, buildings, and various machinery and equipment. (See Table A-3). This amount represents a net increase (including additions and deductions) of \$911,398.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008

CAPITAL ASSET ADMINISTRATION (CONTINUED)

Table A-3 Capital Assets (net of depreciation)				
	Governmental Activities		Business-type Activities	
	2008	2007	2008	2007
Land	\$ 1,642,149	\$ 1,556,184	\$ 654,514	\$ 654,514
Construction Work in Progress	1,375,920	2,040,093	49,729	225,031
Buildings	10,017,390	10,026,741	803,456	833,675
Improvements Other Than Buildings	15,653,620	13,958,552	13,238,759	13,047,833
Machinery and Equipment	1,351,864	1,389,488	884,574	1,028,466
Total Capital Assets	\$ 30,040,943	\$ 28,971,058	\$ 15,631,032	\$ 15,789,519

This year's major capital asset additions included:

- Industrial Park project was finished
- Purchase of the Sundstrom property
- Purchase of easements for the airport
- Roof replacement at the Community Center

The City's 2009 capital budget projects spending \$1,303,800 on street overlays, super AWOS and ramp rehabilitation at the airport, softball complex improvements and community center rehabilitation project and some park improvements. These projects will be funded with various grants, projected additional sales tax and cash on hand.

LONG-TERM DEBT

At the year-end the City had \$9,848,759 in Sales Tax Revenue Bonds, General Obligation Bonds and other long-term obligations. This is a decrease of 7 percent as shown on Table A-4 below.

Table A-4 Outstanding Debt and Obligations				
	Governmental Activities		Business-type Activities	
	2008	2007	2008	2007
Compensated Absences	\$ 166,429	\$ 166,234	\$ 43,968	\$ 45,045
Capital Acquisition Leases	-	33,061	-	-
Tax Increment Financing Obligations	508,362	391,921	-	-
Sales Tax Revenue Bonds	6,470,000	5,659,835	-	-
General Obligation Bonds	2,660,000	2,890,000	-	-
Total Outstanding Debt and Obligations	\$ 9,804,791	\$ 9,141,051	\$ 43,968	\$ 45,045

The City is liable for up to 40 hours of accrued vacation leave payable to all full-time employees upon their termination. The City is also liable for up to one-half of the accumulated sick leave at 3/4 of the current wage for all employees who have been employed for more than ten years upon their termination. Compensated absences had very little change from 2007 to 2008.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2008

LONG-TERM DEBT (Continued)

The City has outstanding \$2,660,000 in General Obligation Bonds, Series 2002. These bonds are secured and paid for by service fees of the Water and Wastewater Funds. The City does not anticipate the use of any tax dollars to pay for these bonds. These bonds were used to pay off State Revolving Funds Loans, which were used to build additional wastewater ponds, maintain current wastewater ponds and to install new water and sewer lines. These bonds will be fully paid off in June 2021.

The City has outstanding \$6,470,000 in Sales Tax Revenue Bonds, Series 2008. These bonds were used to refinance our Series 2002, 2003, 2005 and 2006. They mature in March 2020, interest is at a fixed 2.5 to 3.8 percent, due in variable annual installments. Financed through the Capital Improvement fund.

The City has outstanding \$508,362 in Tax Increment Financing Obligations. The obligations are financed by the additional property tax revenue received from the county due to the increased assessed values of the property. The pay off dates of these obligations will vary depending upon the collection of the property taxes by the county.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's current economic position has shown little change. The City did experience an increase in total property valuation of \$9,780,924 or 3 percent from the prior year. The increase in property valuations allows the City the ability to increase the amount of revenue generated from property taxes by approximately \$130,750. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3 percent or an amount based on the Consumer Price Index (CPI), whichever is lower. In 2008, the CPI was 2.9 percent. This year property tax levy requests increased 4.86 percent.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The city has experience a decrease in taxable sales of 6 percent over the prior year. The City has budgeted for a 9 percent decrease in sales tax revenue for the next year.

The City's adopted General Fund budget for the next fiscal year will rise 17 percent to \$6,465,226. The largest portion of this increase is due to the moving of the Rally/Sponsorship fund to the General Fund and the increases in wages and cost-of-living adjustments for the city's employees.

The City's business-type activities (liquor, water, wastewater, and sanitation operations) expect that the results for 2009 will be consistent with the results of 2008.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Sturgis' Finance Office, 1040 2nd Street, Suite 103, Sturgis SD 57785.

CITY OF STURGIS

**STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets			
Cash and Certificates of Deposit (Note 2)	\$ 4,468,803	\$ 1,864,506	\$ 6,333,309
Receivables, Net	417,820	219,355	637,175
Notes Receivable (Note 10)	917,933	87,500	1,005,433
Internal Balances (Note 6)	(110,000)	110,000	-
Inventories	7,242	135,344	142,586
Deferred Charges	102,932	-	102,932
Other Assets	29,493	7,710	37,203
Restricted Assets:			
Cash with Fiscal Agent (Note 5)	646,206	-	646,206
Deposits	135,844	-	135,844
Capital Assets (Note 4)			
Land and Construction Work in Progress	3,018,069	704,243	3,722,312
Other Capital Assets, Net of Depreciation	27,022,874	14,926,789	41,949,663
Total Assets	\$ 36,657,216	\$ 18,055,447	\$ 54,712,663
Liabilities			
Accounts Payable	\$ 112,231	\$ 67,082	\$ 179,313
Other Current Liabilities	101,628	146,859	248,487
Noncurrent Liabilities (Note 5):			
Due Within One Year	912,822	-	912,822
Due in More Than One Year	8,891,969	43,968	8,935,937
Total Liabilities	10,018,650	257,909	10,276,559
Net Assets			
Invested in Capital Assets, Net of Related Debt	20,402,581	15,631,032	36,033,613
Restricted for:			
Capital Outlay	2,125,944	-	2,125,944
Debt Service	646,206	-	646,206
SDPAA	135,844	-	135,844
Permanently Restricted Purposes:			
Expendable	271,938	-	271,938
Nonexpendable	289,535	-	289,535
Unrestricted	2,766,518	2,166,506	4,933,024
Total Net Assets	26,638,566	17,797,538	44,436,104
Total Liabilities and Net Assets	\$ 36,657,216	\$ 18,055,447	\$ 54,712,663

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	----- Program Revenues -----				Net (Expense) Revenue and ----- Changes in Net Assets -----		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Primary Government							
Governmental Activities:							
General Government	\$ 2,008,138	\$ 1,260,031	\$ -	\$ -	\$ (748,107)	\$ -	\$ (748,107)
Public Safety	1,856,091	5,653	55,943	-	(1,794,495)	-	(1,794,495)
Public Works	1,338,036	139,510	-	798,526	(400,000)	-	(400,000)
Health and Welfare	454,433	589,017	-	-	134,584	-	134,584
Culture and Recreation	1,821,817	375,581	-	-	(1,446,236)	-	(1,446,236)
Conservation and Development	268,505	-	-	-	(268,505)	-	(268,505)
Interest on Long-Term Debt	316,670	-	-	-	(316,670)	-	(316,670)
Miscellaneous Expenditure	151,797	-	-	-	(151,797)	-	(151,797)
Total Governmental Activities	8,215,487	2,369,792	55,943	798,526	(4,991,226)	-	(4,991,226)
Business-Type Activities:							
Liquor	1,464,264	1,624,358	-	-	-	160,094	160,094
Water	934,209	1,016,785	-	207,394	-	289,970	289,970
Wastewater	604,025	944,354	-	207,394	-	547,723	547,723
Sanitation	817,602	751,791	-	-	-	(65,811)	(65,811)
Total Business-Type Activities	3,820,100	4,337,288	-	414,788	-	931,976	931,976
Total Primary Government	\$ 12,035,587	\$ 6,707,080	\$ 55,943	\$ 1,213,314	(4,991,226)	931,976	(4,059,250)
General Revenues:							
Taxes:							
Property Taxes					2,978,852	-	2,978,852
Sales Taxes					2,612,128	-	2,612,128
State Shared Revenue					178,354	-	178,354
Grants and Contributions Not Restricted to Specific Programs					14,845	-	14,845
Unrestricted Investment Earnings					122,765	34,748	157,513
Miscellaneous Revenue					118,694	3,176	121,870
Transfers					748,813	(898,013)	(149,200)
Total General Revenues and Transfers					6,774,451	(860,089)	5,914,362
Change in Net Assets					1,783,225	71,887	1,855,112
Net Assets, Beginning					24,855,341	17,725,651	42,580,992
Net Assets, Ending					\$ 26,638,566	\$ 17,797,538	\$ 44,436,104

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General Fund	Capital Improvement Fund	Park Fund	Other Governmental Funds	Total Governmental Funds
Assets					
101 Cash	\$ 1,600	\$ -	\$ -	\$ -	\$ 1,600
104 Interest Bearing Accounts	540,948	1,440,688	84,246	2,061,786	4,127,668
105 Savings Certificates	-	-	-	339,535	339,535
106 Restricted Cash with Fiscal Agent (Note 5)	-	646,206	-	-	646,206
108 Property Taxes Receivable	73,228	-	-	-	73,228
108 Sales Tax Receivable	36,363	36,363	-	5,166	77,892
115 Accounts Receivable	61,901	-	-	543,551	605,452
116 Estimated Uncollectible Accounts Receivable	(10,000)	-	-	(378,403)	(388,403)
121 Special Assessments Receivable	16,775	7,853	-	-	24,628
128 Notes Receivable (Note 10)	-	-	-	917,933	917,933
132 Due from Federal/State Government	24,262	-	-	-	24,262
135 Interest Receivable	-	-	-	761	761
142 Inventory of Supplies Purchased for Resale	2,946	-	-	4,296	7,242
154 Restricted Deposits	135,844	-	-	-	135,844
155 Prepaid Expense	24,317	-	3,383	1,793	29,493
Total Assets	\$ 908,184	\$ 2,131,110	\$ 87,629	\$ 3,496,418	\$ 6,623,341
Liabilities and Fund Balances					
<i>Liabilities</i>					
202 Accounts Payable	\$ 98,158	\$ 5,166	\$ 4,805	\$ 4,102	\$ 112,231
215 Accrued Interest Payable	-	-	-	11,143	11,143
216 Accrued Wages Payable	63,321	-	6,876	8,663	78,860
217 Accrued Taxes Payable	1,818	-	-	179	1,997
220 Deposits	9,628	-	-	-	9,628
224 Deferred Revenue	80,855	-	-	-	80,855
236 Advance to Other Funds (Note 6)	-	-	110,000	-	110,000
Total Liabilities	253,780	5,166	121,681	24,087	404,714
<i>Fund Balances</i>					
261 <i>Reserved Fund Balances</i>					
261.00 SDPAA Reserve	135,844	-	-	-	135,844
261.04 Reserved for Debt Service	-	646,206	-	-	646,206
261.16 Reserved for Long-Term Notes Receivable	-	-	-	917,933	917,933
261.16 Reserved for Endowment	-	-	-	289,535	289,535
261.99 Reserved for Inventory	2,946	-	-	4,296	7,242
261.99 Reserved for Prepaid Expense	24,317	-	3,383	1,793	29,493
262 <i>Unreserved Fund Balances</i>					
262.01 Designated for Next Year's Appropriations	200,000	107,132	-	210,049	517,181
262.01 Designated for Library Long-Term	-	-	-	100,000	100,000
262.09 Undesignated	291,297	1,372,606	(37,435)	-	1,626,468
262.09 Special Revenue Funds	-	-	-	1,465,555	1,465,555
262.09 Debt Service Funds	-	-	-	(1,785)	(1,785)
262.09 Capital Projects Funds	-	-	-	313,017	313,017
262.09 Permanent Funds	-	-	-	171,938	171,938
Total Fund Balances	654,404	2,125,944	(34,052)	3,472,331	6,218,627
Total Liabilities and Fund Balances	\$ 908,184	\$ 2,131,110	\$ 87,629	\$ 3,496,418	\$ 6,623,341

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

Total Fund Balances - Governmental Funds \$ 6,218,627

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not current financial
resources and therefore are not reported in the funds. 30,040,943

Long-term liabilities, including bonds payable, tax increment financing
obligations, and compensated absences are not due and payable in the
current period and therefore not reported in the funds. (9,804,791)

Assets such as delinquent taxes receivable and special assessments are not
available to pay for current period expenditures and therefore are deferred in
the funds. 80,855

Discount on bonds issued totaling \$48,525 and bond costs totaling
\$54,407 are capitalized on the Statement of Activities as deferred charges and
amortized over the life of the refunded bonds. These costs were expensed
in the governmental funds. 102,932

Total Net Assets - Governmental Funds **\$ 26,638,566**

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Revenue	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Park Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Taxes:</i>					
311 General Property Taxes	\$ 2,484,456	\$ -	\$ -	\$ 470,980	\$ 2,955,436
313 General Sales and Use Taxes	1,194,456	1,194,456	-	223,216	2,612,128
315 Amusement Taxes	828	-	-	-	828
319 Penalties and Interest on Delinquent Taxes	9,651	-	-	-	9,651
320 Licenses and Permits	376,937	-	-	-	376,937
<i>Intergovernmental Revenue:</i>					
331 Federal Grants	30,232	-	-	-	30,232
334 State Grant	4,976	-	4,812	552	10,340
335.01 Bank Franchise Tax	9,246	-	-	-	9,246
335.03 Liquor Tax Reversion	39,201	-	-	-	39,201
335.04 Motor Vehicle Licenses	47,274	-	-	-	47,274
335.08 Local Government Highway and Bridge Fund	82,633	-	-	-	82,633
338.02 County Highway and Bridge Reserve Tax	5,855	-	-	-	5,855
338.04 Port of Entry	11,925	-	-	-	11,925
338.99 Other	6,145	-	-	-	6,145
<i>Charges for Goods and Services:</i>					
341 General Government	837,694	-	-	45,400	883,094
342 Public Safety	57,778	-	-	50	57,828
343 Highways and Streets	5,489	-	-	-	5,489
344 Sanitation	-	-	-	129,575	129,575
345 Health	2,216	-	-	-	2,216
346 Culture and Recreation	371,499	-	82	4,000	375,581
347 Ambulance	-	-	-	586,801	586,801
349 Other	-	-	-	36,665	36,665
<i>Fines and Forfeits:</i>					
351 Court Fines and Costs	3,768	-	-	-	3,768
<i>Miscellaneous Revenue:</i>					
361 Earnings on Deposits and Investments	12,669	39,208	3,154	67,734	122,765
362 Rentals	6,747	-	500	-	7,247
363 Special Assessments	3,568	878	-	-	4,446
367 Contributions and Donations	1,165	318,541	11,053	2,627	333,386
369 Other	1,299	-	-	6,700	7,999
Total Revenue	5,607,707	1,553,083	19,601	1,574,300	8,754,691

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Park Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Expenditures					
<i>General Government:</i>					
411 Legislative	181,112	-	-	47,837	228,949
414 Financial Administration	794,984	-	-	-	794,984
419 Other	884,207	-	-	-	884,207
<i>Public Safety:</i>					
421 Police	1,647,402	-	-	5,877	1,653,279
422 Fire	111,643	-	-	-	111,643
<i>Public Works:</i>					
431 Highway and Streets	540,025	10,278	-	9,971	560,274
432 Sanitation	52,710	-	-	117,941	170,651
435 Airport	38,862	694	-	-	39,556
437 Cemeteries	78,459	-	-	-	78,459
439 Other	-	-	-	-	-
<i>Health and Welfare:</i>					
441 Health	741	-	-	-	741
446 Ambulance	-	-	-	428,541	428,541
<i>Culture and Recreation:</i>					
451 Recreation	698,270	-	-	-	698,270
452 Parks	11,798	15,240	448,592	-	475,630
455 Library	376,531	-	-	19,816	396,347
456 Auditorium	23,720	-	-	-	23,720
459 Community Center	-	-	-	250	250
460 Conservation and Development	-	-	-	268,505	268,505
470 Debt Service	-	5,464,807	-	1,118,725	6,583,532
485 Capital Outlay	302,861	878,133	-	382,297	1,563,291
490 Other	-	-	-	151,797	151,797
Total Expenditures	5,743,325	6,369,152	448,592	2,551,557	15,112,626
Excess of Revenue Under Expenditures	(135,618)	(4,816,069)	(428,991)	(977,257)	(6,357,935)
Other Financing Sources (Uses)					
391.1 Transfers In (Note 7)	497,840	724,379	515,165	878,032	2,615,416
511 Transfers Out (Note 7)	(527,165)	(485,859)	-	(853,579)	(1,866,603)
391.2 Sale of Bonds (Note 5)	-	6,470,000	-	406,000	6,876,000
391.4 Compensation for Loss or Damage to Capital Assets	17,919	-	2,148	22,791	42,858
516 Discount on Bond Issued	-	(48,525)	-	-	(48,525)
Total Other Financing Sources (Uses)	(11,406)	6,659,995	517,313	453,244	7,619,146
Net Change in Fund Balance	(147,024)	1,843,926	88,322	(524,013)	1,261,211
Fund Balance, January 1, 2008	801,428	282,018	(122,374)	3,996,344	4,957,416
Fund Balance, December 31, 2008	\$ 654,404	\$ 2,125,944	\$ (34,052)	\$ 3,472,331	\$ 6,218,627

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Net change in fund balances - total government funds \$ 1,261,211

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the Statement of Activities the cost of those assets is allocated over
their estimated lives and reported as depreciation expense. This is
the amount by which capital outlays exceeded depreciation in the
current period. 630,472

The receipt of donated capital assets is not reported on the fund statements,
but is reported as a program revenue on the government wide statements. 439,413

Governmental funds report property taxes and special assessments as revenue
when funds become available, but the Statement of Activities includes the
property tax and special assessments as revenue when earned. 12,937

Repayment of bond principal is an expenditure in the governmental
funds, but the repayment reduces long term liabilities in the Statement
of Net Assets. 6,212,455

Issuance of revenue bonds is an other financing source in the governmental
funds, but the proceeds increase long term liabilities in the Statement of Net
Assets. (6,876,000)

Discount on bonds issued totaling \$48,525 and bond costs totaling
\$54,407 are capitalized on the Statement of Activities as deferred charges and
amortized over the life of the refunded bonds. These costs were expensed
in the governmental funds. 102,932

Governmental funds do not reflect the change in accrued leave, but the
Statement of Activities reflects the change in accrued leave through
expenditures. (195)

Change in Net Assets of Governmental Activities **\$ 1,783,225**

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

BALANCE SHEET
PROPRIETARY FUNDS
DECEMBER 31, 2008

	<u>Liquor Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Sanitation Fund</u>	<u>Total Proprietary Funds</u>
Assets					
Current Assets					
101 Cash	\$ 1,050	\$ 1,000	\$ -	\$ 200	\$ 2,250
104 Interest Bearing Accounts	127,500	969,625	659,733	105,398	1,862,256
115 Accounts Receivable (less Allowance for Doubtful Accounts)	18,959	67,274	82,285	50,837	219,355
128 Notes Receivable (Note 10)	-	-	87,500	-	87,500
142 Inventory of Supplies for Resale	135,344	-	-	-	135,344
155 Prepaid Expenses	344	3,124	1,609	2,633	7,710
Total Current Assets	283,197	1,041,023	831,127	159,068	2,314,415
Noncurrent Asset					
131 Advance to Other Funds (Note 6)	-	-	-	110,000	110,000
Capital Assets (Note 4)					
160 Land	6,500	1,800	646,214	-	654,514
162 Buildings	59,828	181,183	445,257	310,994	997,262
163 Accumulated Depreciation - Buildings	(48,346)	(27,947)	(93,679)	(23,834)	(193,806)
164 Improvements Other Than Buildings	-	9,237,646	9,270,400	22,788	18,530,834
165 Accumulated Depreciation - Improvements Other than Buildings	-	(3,142,768)	(2,137,639)	(11,668)	(5,292,075)
166 Machinery and Equipment	30,562	518,808	560,848	1,675,862	2,786,080
167 Accumulated Depreciation - Machinery and Equipment	(27,537)	(395,633)	(398,917)	(1,079,419)	(1,901,506)
168 Construction Work in Progress	-	-	49,729	-	49,729
Total Noncurrent Assets	21,007	6,373,089	8,342,213	1,004,723	15,741,032
Total Assets	\$ 304,204	\$ 7,414,112	\$ 9,173,340	\$ 1,163,791	\$ 18,055,447
Liabilities and Net Assets					
Current Liabilities					
202 Accounts Payable	\$ 21,571	\$ 20,732	\$ 5,539	\$ 19,240	\$ 67,082
216 Accrued Wages	2,734	7,517	4,787	6,447	21,485
217 Accrued Taxes Payable	6,721	23	-	3,215	9,959
220 Customer Deposits	-	115,415	-	-	115,415
Total Current Liabilities	31,026	143,687	10,326	28,902	213,941
Long-Term Liabilities (Note 5)					
233 Accrued Leave Payable	220	13,519	12,175	18,054	43,968
Total Liabilities	31,246	157,206	22,501	46,956	257,909
Net Assets					
253.1 Invested in Capital Assets	21,007	6,373,089	8,342,213	894,723	15,631,032
252.0 Unrestricted Net Assets	251,951	883,817	808,626	222,112	2,166,506
Total Net Assets	272,958	7,256,906	9,150,839	1,116,835	17,797,538
Total Liabilities and Net Assets	\$ 304,204	\$ 7,414,112	\$ 9,173,340	\$ 1,163,791	\$ 18,055,447

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Liquor Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Sanitation Fund</u>	<u>Total Proprietary Funds</u>
Operating Revenue					
380 Charges for Goods and Services	\$ 1,624,358	\$ 1,016,785	\$ 944,354	\$ 751,791	\$ 4,337,288
Total Operating Revenue	1,624,358	1,016,785	944,354	751,791	4,337,288
Operating Expenses					
410 Personal Services	120,899	358,076	258,358	313,102	1,050,435
420 Other Current Expense	118,067	336,202	101,663	376,031	931,963
426.2 Materials (Cost of Goods Sold)	1,222,477	-	-	-	1,222,477
457 Depreciation	2,821	239,931	244,004	128,469	615,225
Total Operating Expenses	1,464,264	934,209	604,025	817,602	3,820,100
Operating Income (Loss)	160,094	82,576	340,329	(65,811)	517,188
Nonoperating Income					
361 Earnings on Deposits and Investments	2,959	15,391	13,078	3,320	34,748
369 Other	-	3,159	-	-	3,159
Total Nonoperating Income	2,959	18,550	13,078	3,320	37,907
Income (Loss) Before Contributions and Transfers	163,053	101,126	353,407	(62,491)	555,095
391.1 Transfers In (Note 7)	-	-	-	12,000	12,000
391 Capital Contributions	-	207,394	207,394	-	414,788
391.4 Compensation for Loss or Damage to Capital Assets	17	-	-	-	17
511 Transfers Out (Note 7)	(175,000)	(39,839)	(383,416)	(311,758)	(910,013)
Contributions and Transfers	(174,983)	167,555	(176,022)	(299,758)	(483,208)
Net Income (Loss)	(11,930)	268,681	177,385	(362,249)	71,887
Net Assets, January 1, 2008	284,888	6,988,225	8,973,454	1,479,084	17,725,651
Net Assets, December 31, 2008	\$ 272,958	\$ 7,256,906	\$ 9,150,839	\$ 1,116,835	\$ 17,797,538

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Liquor Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Sanitation Fund</u>	<u>Total Proprietary Funds</u>
Cash Flows From Operating Activities					
Receipts from Customers	\$ 1,621,955	\$ 1,026,311	\$ 981,703	\$ 751,400	\$ 4,381,369
Payments to Suppliers	(1,347,905)	(322,690)	(97,340)	(367,288)	(2,135,223)
Payments to Employees	(120,781)	(355,501)	(259,648)	(306,288)	(1,042,218)
Net Cash Flows Provided by Operating Activities	153,269	348,120	624,715	77,824	1,203,928
Cash Flows From Noncapital Financing Activities					
Transfers In	-	-	-	12,000	12,000
Transfers Out	(175,000)	(39,839)	(383,416)	(311,758)	(910,013)
Internal Activity - Receipt from Other Funds	-	-	-	25,000	25,000
Net Cash Flows Used in Noncapital Financing Activities	(175,000)	(39,839)	(383,416)	(274,758)	(873,013)
Cash Flows From Capital and Related Financing Activities					
Purchases of Capital Assets	-	-	-	(41,950)	(41,950)
Compensation for Loss or Damage to Capital Assets	17	-	-	-	17
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	17	-	-	(41,950)	(41,933)
Cash Flows Provided by Investing Activities					
Cash Received From Interest	2,959	15,391	13,078	3,320	34,748
Cash Received from Miscellaneous Income	-	3,159	-	-	3,159
Net Cash Flows Provided by Investing Activities	2,959	18,550	13,078	3,320	37,907
Increase (Decrease) in Cash and Cash Equivalents	(18,755)	326,831	254,377	(235,564)	326,889
Cash and Cash Equivalents, January 1, 2008	147,305	643,794	405,356	341,162	1,537,617
Cash and Cash Equivalents, December 31, 2008	\$ 128,550	\$ 970,625	\$ 659,733	\$ 105,598	\$ 1,864,506

Reconciliation of Operating Income (Loss) to

Net Cash Provided by Operating Activities

Operating Income (Loss)	\$ 160,094	\$ 82,576	\$ 340,329	\$ (65,811)	\$ 517,188
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities:</i>					
Depreciation Expense	2,821	239,931	244,004	128,469	615,225
Change in Assets and Liabilities:					
Inventory of Supplies	(18,352)	-	-	-	(18,352)
Accounts Receivable	(2,403)	2,196	37,349	(391)	36,751
Prepaid Expenses	10,142	12,025	11,324	18,200	51,691
Accounts Payable	3,639	1,495	(7,001)	(9,172)	(11,039)
Accrued Wages	734	3,484	1,955	3,121	9,294
Accrued Taxes Payable	(2,790)	(8)	-	(285)	(3,083)
Customer Deposits	-	7,330	-	-	7,330
Accrued Leave Payable	(616)	(909)	(3,245)	3,693	(1,077)
Net Cash Flows Provided by Operating Activities	\$ 153,269	\$ 348,120	\$ 624,715	\$ 77,824	\$ 1,203,928

Supplemental Disclosure of Cash Flow Information:

Capital Asset Transfer from Governmental Funds	\$ -	\$ 207,394	\$ 207,394	\$ -	\$ 414,788
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The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

**STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2008**

	Agency Fund
Assets	
Interest Bearing Accounts	\$ 138,608
Total Assets	\$ 138,608
Liabilities	
Amounts Held for Others	\$ 138,608
Total Liabilities	\$ 138,608

The accompanying notes are an integral part of the financial statements.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The reporting entity of the City of Sturgis (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility; those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

The major funds of the City financial reporting entity are described below:

Governmental Funds:

General Fund – the general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund is always considered to be a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes. Major special revenue funds include:

Capital Improvement Fund – fifty percent of the tax levied under Title 20 Tax, Chapter 20.01 Municipal Sales and Service Tax, and Use Tax shall be used only for capital improvements, land acquisition, debt reduction, and the purchase of machinery and equipment. This is a major fund.

Park Fund – used to maintain and provide quality parks and recreation for the City; generates revenue through fees, but is supplemented by the General Fund. This is a major fund.

Debt Service Funds – debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. There are no major debt service funds.

Capital Projects Funds – capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments). There are no major capital projects funds.

Permanent Funds – permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs—that is for the benefit of the City and its citizenry. There are no major permanent funds.

Proprietary Funds:

Enterprise Funds – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The business-type activities and enterprise funds apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Proprietary Funds (Continued):

Proprietary Funds include:

Liquor Fund – financed primarily by the sale of liquor; this fund accounts for construction and operation of the City liquor store. This is a major fund.

Water Fund - financed primarily by user charges; this fund accounts for the construction and operation of the City waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

Wastewater Fund - financed primarily by user charges; this fund accounts for the construction and operation of the City sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

Sanitation Fund - financed primarily by user charges; this fund accounts for the construction and operation of the City rubble site and collection and disposal of solid waste. This is a major fund.

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and are never considered to be major funds:

Agency Funds - agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are used to account for the accumulation and distribution of property tax revenues and various pass through funds. This fund includes special assessment activities.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements and donations are recognized in the year in which all eligibility requirements have been satisfied.

Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting:

Government-wide Financial Statements:

In the Government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the City does not exceed one bill-paying cycle, and for the City, the length of that cycle is 60 days. The revenues which are accrued at December 31, 2008 are sales tax revenues and intergovernmental revenue.

Under the modified accrual basis of accounting, receivables may be measurable, but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

- In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in Advance to asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute available spendable resources since they are not a component of net current assets. No such amounts exist at December 31, 2008. Current portions of interfund receivables (reported in Due from asset accounts) are considered available spendable resources.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2008, balance of governmental and business-type capital assets are all valued at original cost.

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities, construction period interest is capitalized in accordance with USGAAP.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as "Improvements Other than Buildings."

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Government-wide Statement of Activities. Accumulated depreciation is reported on the Government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ -0-	----N/A-----	----N/A-----
Improvements Other Than Buildings	\$ 15,000	Straight-line	10-50 yrs.
Buildings	\$ 15,000	Straight-line	10-50 yrs.
Machinery and Equipment	\$ 10,000	Straight-line	5-40 yrs.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of general obligation bonds, revenue bonds, tax increment financing, and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

g. Program Revenues

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications

In the proprietary funds' Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) **DECEMBER 31, 2008**

(1) Summary of Significant Accounting Policies (Concluded)

j. Equity Classifications

Government-wide Financial Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between Reserved and Unreserved components. Proprietary fund equity is classified the same as in the government-wide financial statements. Agency funds have no fund equity.

k. Application of Net Assets

It is the City's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

l. Inventory

Inventory consists of inventory held for resale, which is recorded at the lower of cost or market, using the first-in, first-out method.

Inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

m. Compensated Absences

Full time employees earn up to two weeks of paid vacation, three weeks after the employee has been employed for five years, and four weeks after the employee has been employed for ten years. Maximum annual accrued carryover is forty hours. Upon termination, an employee is entitled to receive compensation for their accrued annual leave balance at their normal wage.

Sick leave is earned by full-time employees at the rate of eight hours per month to a maximum of 1,000 hours. Upon termination, employees are not entitled to receive compensation for their accrued sick leave balance unless they have been employed for ten years, at which time they receive half of their accumulated sick leave at three-quarters of their normal wage.

n. Deferred Revenue

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008

(2) Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating, which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation duly authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2008, the City's cash and investments consisted of checking and savings accounts, certificates of deposit, and money market accounts. All of these accounts are insured or collateralized in the City's name.

State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The City's policy is to credit all income from deposits and investments to the fund making the investment, with the exception of the liquor fund and the sanitation fund, which is deposited into the general fund.

Interest Rate Risk:

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk:

State law limits eligible investments for the City as discussed above. The City has no investment policy that would further limit its investment choices.

Custodial Credit Risk:

Custodial credit risk is the risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2008, none of the City's deposits were exposed to custodial credit risk.

Concentration Risk:

The City places no limit on the amount that they may be invested in any one issuer.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(3) Property Taxes

Property taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. They attach as an enforceable lien on property as of January 1 of each year. The county bills and collects the taxes and remits them to the City.

The City is permitted by several state statutes to levy the following amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City:

General Fund	\$27
Bond Redemption Funds	Amounts Required by Bond Agreements
Judgment Fund (Upon Judgment Being Made)	\$10

State statute allows the tax rates to be raised by special election of the voters.

(4) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31 is as follows:

	Balance 1/1/2008	Additions	Transfers/ Deletions	Balance 12/31/2008
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 1,556,184	\$ 85,965	\$ -	\$ 1,642,149
Construction Work in Progress	2,040,093	149,069	813,242	1,375,920
Total Capital Assets, not being Depreciated	3,596,277	235,034	813,242	3,018,069
Capital Assets, being Depreciated:				
Buildings	12,281,330	261,757	-	12,543,087
Improvements Other Than Buildings	17,679,453	2,170,327	-	19,849,780
Machinery and Equipment	2,888,385	148,828	-	3,037,213
Total Capital Assets, being Depreciated	32,849,168	2,580,912	-	35,430,080
Less Accumulated Depreciation for:				
Buildings	2,254,589	271,108	-	2,525,697
Improvements Other Than Buildings	3,720,901	475,259	-	4,196,160
Machinery and Equipment	1,498,897	186,452	-	1,685,349
Total Accumulated Depreciation	7,474,387	932,819	-	8,407,206
Total Governmental Activities Capital Assets, being Depreciated, Net	25,374,781	1,648,093	-	27,022,874
Total Governmental Capital Assets, Net	\$ 28,971,058	\$ 1,883,127	\$ 813,242	\$ 30,040,943

Depreciation expense was charged to functions as follows:

Public Works	\$ 488,901
Culture and Recreation	227,600
General Government	99,998
Public Safety	91,169
Health and Welfare	25,151
Total Depreciation Expense - Governmental	\$ 932,819

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(4) Changes in Capital Assets (Continued)

	Balance 1/1/2008	Additions	Deletions	Balance 12/31/2008
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 654,514	\$ -	\$ -	\$ 654,514
Construction Work in Progress	225,031	-	175,302	49,729
Total Capital Assets, not being Depreciated	879,545	-	175,302	704,243
Capital Assets, being Depreciated:				
Buildings	997,262	-	-	997,262
Improvements Other Than Buildings	17,940,744	590,090	-	18,530,834
Machinery and Equipment	2,744,130	41,950	-	2,786,080
Total Capital Assets, being Depreciated	21,682,136	632,040	-	22,314,176
Less Accumulated Depreciation for:				
Buildings	163,587	30,219	-	193,806
Improvements Other Than Buildings	4,892,911	399,164	-	5,292,075
Machinery and Equipment	1,715,664	185,842	-	1,901,506
Total Accumulated Depreciation	6,772,162	615,225	-	7,387,387
Total Business-Type Activities Capital Assets, being Depreciated, Net	14,909,974	16,815	-	14,926,789
Total Business-Type Capital Assets, Net	\$ 15,789,519	\$ 16,815	\$ 175,302	\$ 15,631,032

Depreciation expense was charged to functions as follows:

<i>Business-Type Activities:</i>	
Wastewater	\$ 244,004
Water	239,931
Sanitary	128,469
Liquor	2,821
Total Depreciation Expense - Business-Type	\$ 615,225

Construction Work in Progress:

As of December 31, 2008, there were no commitments associated with construction projects in progress. Completion of such projects will be funded through fund balance, or future grant funds.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(5) Long-Term Debt

The following is a summary of the long-term debt transactions for the year ending December 31:

	Balance 1/1/2008	Additions	Deletions	Balance 12/31/2008	Due Within One Year
Primary Government:					
Governmental Activities:					
General Obligation Bonds	\$ 2,890,000	\$ -	\$ 230,000	\$ 2,660,000	\$ 240,000
Revenue Bonds	5,659,835	6,470,000	5,659,835	6,470,000	445,000
Tax Increment Financing Obligations	391,921	406,000	289,559	508,362	184,422
Capital Acquisition Leases	33,061	-	33,061	-	-
Compensated Absences	166,234	43,595	43,400	166,429	43,400
Total Governmental Activities	9,141,051	6,919,595	6,255,855	9,804,791	912,822
Business-Type Activities:					
Compensated Absences	45,045	8,470	9,547	43,968	9,547
Total Business-Type Activities	45,045	8,470	9,547	43,968	9,547
Total Primary Government	\$ 9,186,096	\$ 6,928,065	\$ 6,265,402	\$ 9,848,759	\$ 922,369

The City has a bond reserve of \$646,206 at December 31, 2008, in accordance with debt covenants.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(5) Long-Term Debt (Continued)

Debt payable at December 31, 2008, is comprised of the following:

General Obligation

General Obligation Refunding Bonds, Series 2002 for \$4,075,000, mature in June 2021, interest at 1.5 to 5.05 percent, due in annual installments of \$41,010 to \$183,249. Financed through General Obligation Refunding Bond Debt Service Fund. \$ 2,660,000

Revenue Bonds

Sales Tax Refunding Bonds, 2008 Series for \$6,470,000, mature in March 2020, interest at a fixed 2.5 to 3.8 percent, due in variable annual installments. Financed through the Capital Improvement Fund. 6,470,000

Tax Increment Financing Obligations

TIF #6 for \$175,000, including interest not to exceed 10.5 percent per annum, due in varying installments within 30 days of property tax collections from the county. Financed through TIF Debt Service Funds. 7,752

TIF #7 for \$300,000, including interest not to exceed 9 percent per annum, due in varying installments within 30 days of property tax collections from the county. Financed through TIF Debt Service Funds. 94,610

TIF #9 for \$406,000, including interest not to exceed 10 percent per annum, due in varying installments within 30 days of property tax collections from the county. Financed through TIF Debt Service Funds. 406,000

Total Bonds and Leases	9,638,362
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Compensated Absences:

General Fund	166,429
Liquor Fund	220
Water Fund	13,519
Wastewater Fund	12,175
Sanitation Fund	18,054

Total Compensated Absences	210,397
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Total Long-Term Debt	\$ 9,848,759
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CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(5) Long-Term Debt (Concluded)

The annual requirements to amortize long-term debt outstanding as of December 31, 2008, except for compensated absences are as follows:

	General Obligation		Revenue Bonds		TIF Obligations		Total	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2009	\$ 122,140	\$ 240,000	\$ 280,304	\$ 445,000	\$ 29,462	\$ 184,422	\$ 431,906	\$ 869,422
2010	112,014	250,000	197,605	420,000	32,394	69,800	342,013	739,800
2011	100,280	260,000	185,700	430,000	25,414	76,780	311,394	766,780
2012	88,794	270,000	172,790	445,000	17,736	84,457	279,320	799,457
2013	76,598	280,000	159,063	455,000	9,290	92,903	244,951	827,903
2014-2018	205,755	1,020,000	556,833	2,515,000	-	-	762,588	3,535,000
2019-2020	24,366	340,000	78,952	1,760,000	-	-	103,318	2,100,000
Total	\$ 729,947	\$ 2,660,000	\$ 1,631,247	\$ 6,470,000	\$ 114,296	\$ 508,362	\$ 2,475,490	\$ 9,638,362

As of December 31, 2008, the City was acting as a fiscal agent for the following special assessment issues:

2002	\$269,598
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The City is not liable directly or indirectly for the preceding special assessments.

On May 7, 2008, the City issued \$6,470,000 of Sales Tax Refunding Bonds, Series 2008, with an interest rate of 2.5 to 3.8 percent. These bonds were issued to refund \$5,660,000 of outstanding Sales Tax Revenue/Refunding Bonds of 2002, 2003, 2005, and 2006, which were called in May 2008. The refunded bonds had an average interest rate of 4.75 percent. Because the refunded bonds have been repaid, the liability for those bonds has been removed from the City's financial statements. The City refunded the bonds to reduce its total debt service payments over the next 12 years by \$408,873 and to obtain an economic gain of \$257,911.

(6) Individual Fund Interfund Receivable and Payable Balances

Interfund receivable and payable balances at December 31, 2008, are as follows:

Fund	Interfund Receivables	Interfund Payables
<i>Major Funds:</i>		
Parks Fund	\$ -	\$ 110,000
Sanitation Fund	110,000	-
Total Interfund Receivable and Payable Balances	\$ 110,000	\$ 110,000

The Sanitation Fund loaned monies to the Parks Fund to purchase Woodland Trailer Park land. The land was purchased in order to develop more park area for the community.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(7) Interfund Transfers

Interfund transfers during the year ended December 31, 2008 are as follows:

	Transfers In	Transfers Out
<i>Major Funds:</i>		
General Fund	\$ 497,840	\$ 527,165
Capital Improvements Fund	724,379	485,859
Park Fund	515,165	-
Water Fund	-	39,839
Wastewater Fund	-	383,416
Sanitation Fund	12,000	311,758
Liquor Fund	-	175,000
<i>Nonmajor Funds:</i>		
UDAG Fund	-	30,000
GO Refunding Bonds Fund	362,173	-
Sales Tax Refunding Bond Fund	449,762	642,220
2003 Revenue Bonds Funds	17,530	-
2005 Revenue Bond Funds	18,567	-
2006 Revenue Bond Funds	-	32,159
TIF 9 - Palisades	-	149,200
Revolving Loan Fund	30,000	-
Total Transfers	\$ 2,627,416	\$ 2,776,616

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008

(8) Retirement Plan -- South Dakota Retirement System

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety and judicial employees contribute eight and nine percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2008, 2007, 2006, and 2005 were \$213,700, \$193,421, \$184,123, and \$174,066 respectively, equal to the required contributions each year.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2008, the City managed its risks as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium to the pool to provide coverage for general liability, vehicle coverage, wrongful acts, and errors and omissions of public officials.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverages will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. The City carries a \$1,000 deductible for the wrongful acts coverage and auto coverage.

As of December 31, 2008, the City has a fully vested balance in the cumulative reserve fund of \$135,844. Access to this balance is restricted by SDPAA.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from the risks have not exceeded the liability coverage during the past three years.

Property and Building Insurance:

The City purchases property and building insurance from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2008**

(9) Risk Management (Continued)

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium to provide worker's compensation coverage for its employees under a retrospectively rated policy, and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$600,000 of any claim per individual. The pool has reinsurance which covers up to \$2,000,000 per individual per incident. The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage over the past three years.

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

(10) Notes Receivable

Notes receivable are revolving loans the City makes to promote urban development. The following is a summary of the notes receivable at December 31, 2008:

Governmental:

<u>Loan</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
Key City Shopping	Building	1.5%	June 2017	\$ 816,658
Jamison International	Inventory and Equipment	3%	September 2009	20,764
NIP Manufacturing	Land and Building	3%	September 2009	10,404
P & J Industries	Equipment	5%	November 2012	40,214
Western Door Company	Equipment	3%	August 2009	29,893
				<u>\$ 917,933</u>

Business -Type:

<u>Loan</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
Mount Rodney RV Park, LLC	None	3%	September 2015	\$ 87,500

(11) Deficit Fund Balances/Fund Net Assets

As of December 31, 2008, the following non-major fund had a deficit fund balances in the following amounts:

General Obligation Refunding Bonds Fund (\$1,785)

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STURGIS

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
311 General Property Taxes	\$ 2,531,235	\$ 2,531,235	\$ 2,484,456	\$ (46,779)
313 General Sales and Use Taxes	1,400,000	1,400,000	1,194,456	(205,544)
315 Amusement Taxes	500	500	828	328
319 Penalties and Interest on Delinquent Taxes	7,000	7,000	9,651	2,651
320 Licenses and Permits	115,950	115,950	376,937	260,987
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	-	30,232	30,232
334 State Grants	10,000	17,500	4,976	(12,524)
335 Bank Franchise Tax	10,000	17,500	9,246	(8,254)
335 Liquor Tax Reversion	35,000	35,000	39,201	4,201
335 Motor Vehicle Licenses	64,000	64,000	47,274	(16,726)
335.1 Local Government Highway and Bridge Fund	70,000	70,000	82,633	12,633
338 County Highway and Bridge Reserve Tax (25%)	15,000	15,000	5,855	(9,145)
338 Port of Entry	12,000	12,000	11,925	(75)
339 Other	-	-	6,145	6,145
339 County Payments in Lieu of Taxes	5,000	5,000	-	(5,000)
<i>Charges for Goods and Services:</i>				
341 General Government	73,600	73,600	837,694	764,094
342 Public Safety	2,000	2,000	57,778	55,778
343 Highways and Streets	2,500	2,500	5,489	2,989
345 Health	3,500	3,500	2,216	(1,284)
346 Culture and Recreation	348,500	348,500	371,499	22,999
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	2,000	2,000	3,768	1,768
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	8,000	8,000	12,669	4,669
362 Rentals	11,100	11,100	6,747	(4,353)
363 Special Assessments	-	-	3,568	3,568
367 Contributions and Donations - Private Sources	2,000	125,782	1,165	(124,617)
369 Other	3,000	3,000	1,299	(1,701)
Total Revenue	4,731,885	4,870,667	5,607,707	737,040

CITY OF STURGIS

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
Expenditures				
<i>General Government:</i>				
411 Legislative	203,005	253,005	198,885	54,120
414 Financial Administration	884,350	899,350	794,984	104,366
419 Other	302,944	322,944	884,207	(561,263)
<i>Public Safety:</i>				
421 Police	1,431,891	1,431,891	1,670,732	(238,841)
422 Fire	143,430	143,430	111,643	31,787
<i>Public Works:</i>				
431 Highway and Streets	670,313	670,313	540,025	130,288
432 Sanitation	63,858	63,858	52,710	11,148
435 Airport	60,750	60,750	38,862	21,888
437 Cemeteries	102,788	102,788	78,459	24,329
<i>Health and Welfare:</i>				
441 Health	5,000	5,000	741	4,259
<i>Culture and Recreation:</i>				
451 Recreation	737,854	753,384	960,028	(206,644)
452 Parks	-	-	11,798	(11,798)
455 Library	289,812	403,064	376,531	26,533
456 Auditorium	36,807	36,807	23,720	13,087
Total Expenditures	4,932,802	5,146,584	5,743,325	(596,741)
Excess of Revenue Over (Under) Expenditures	(200,917)	(275,917)	(135,618)	140,299
Other Financing Sources (Uses)				
391.1 Transfers In	316,082	316,082	497,840	181,758
511 Transfers Out	(515,165)	(515,165)	(527,165)	(12,000)
391.4 Compensation for Loss or Damage to Capital Assets	-	-	17,919	17,919
Total Other Financing Uses	(199,083)	(199,083)	(11,406)	187,677
Net Change in Fund Balance	(400,000)	(475,000)	(147,024)	327,976
Fund Balance, January 1, 2008	801,428	801,428	801,428	-
Fund Balance, December 31, 2008	\$ 401,428	\$ 326,428	\$ 654,404	\$ 327,976

The accompanying supplementary notes are an integral part of the required supplementary information.

CITY OF STURGIS

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL IMPROVEMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 1,323,293	\$1,323,293	\$ 1,194,456	\$ (128,837)
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	696,060	696,060	-	(696,060)
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits	-	-	39,208	39,208
363 Special Assessments	3,000	3,000	878	(2,122)
367 Contributions and Donations - Private Sources	-	318,541	318,541	-
Total Revenue	2,022,353	2,340,894	1,553,083	(787,811)
Expenditures				
<i>Public Works:</i>				
431 Highway and Streets	375,000	865,471	747,842	117,629
435 Airport	739,780	739,780	94,935	644,845
439 Other	-	-	(12)	12
<i>Culture and Recreation:</i>				
451 Recreation	46,000	46,000	-	46,000
452 Parks	115,932	115,932	61,580	54,352
470 Debt Service	34,055	34,055	5,464,807	(5,430,752)
Total Expenditures	1,310,767	1,801,238	6,369,152	(4,567,914)
Excess of Revenue Over (Under) Expenditures	711,586	539,656	(4,816,069)	(5,355,725)
Other Financing Sources (Uses)				
391.1 Transfers In	50,000	221,930	724,379	502,449
511 Transfers Out	(709,765)	(709,765)	(485,859)	223,906
391.2 Sale of Bonds	-	-	6,470,000	6,470,000
516 Discount on Bond Issued	-	-	(48,525)	(48,525)
Total Other Financing Sources (Uses)	(659,765)	(487,835)	6,659,995	7,147,830
Net Change in Fund Balance	51,821	51,821	1,843,926	1,792,105
Fund Balance, January 1, 2008	282,018	282,018	282,018	-
Fund Balance, December 31, 2008	\$ 333,839	\$ 333,839	\$ 2,125,944	\$ 1,792,105

The accompanying supplementary notes are an integral part of the required supplementary information.

CITY OF STURGIS

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

PARK FUND

FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
Revenue				
<i>Intergovernmental Revenue:</i>				
344 State Grant	\$ -	\$ -	\$ 4,812	\$ 4,812
<i>Charges for Goods and Services:</i>				
346 Culture and Recreation	500	500	82	(418)
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	3,500	3,500	3,154	(346)
362 Rentals	200	200	500	300
367 Contributions and Donations - Private Sources	3,500	5,032	11,053	6,021
Total Revenue	7,700	9,232	19,601	10,369
Expenditures				
<i>Culture and Recreation:</i>				
452 Parks	523,365	524,897	448,592	76,305
Total Expenditures	523,365	524,897	448,592	76,305
Excess of Revenue Under Expenditures	(515,665)	(515,665)	(428,991)	86,674
Other Financing Sources				
391 Transfers In	515,165	515,165	515,165	-
391 Proceeds from Sale of General Fixed Assets	500	500	-	(500)
391 Compensation for Loss or Damage to Capital Assets	-	-	2,148	2,148
Total Other Financing Sources	515,665	515,665	517,313	1,648
Net Change in Fund Balance	-	-	88,322	88,322
Fund Balance, January 1, 2008	(122,374)	(122,374)	(122,374)	-
Fund Balance, December 31, 2008	\$ (122,374)	\$ (122,374)	\$ (34,052)	\$ 88,322

The accompanying supplementary notes are an integral part of the required supplementary information.

CITY OF STURGIS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2008

(1) Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2008 and 2007.
7. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects funds, and debt service funds.
8. Budgets for the general fund and major special revenue funds are adopted on a basis consistent with the modified accrual basis of accounting.

(2) GAAP Budgetary Accounting Basis Differences

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

OTHER SUPPLEMENTARY INFORMATION

CITY OF STURGIS

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2008

	<u>Brick Fund</u>	<u>Ambulance Service Fund</u>	<u>Mayor's Ride Fund</u>	<u>Special Sales Tax Fund</u>	<u>Bike Path Fund</u>
Assets					
104 Interest Bearing Accounts	\$ 7,462	\$ 370,269	\$ 3,292	\$ 126,483	\$ 39,913
105 Savings Certificates	-	-	-	-	-
108 Sales Tax Receivable	-	-	-	5,166	-
115 Accounts Receivable	-	543,551	-	-	-
116 Estimated Uncollectible Accounts Receivable	-	(378,403)	-	-	-
128 Notes Receivable	-	-	-	-	-
135 Interest Receivable	-	-	-	-	-
142 Inventory of Supplies Purchased for Resale	4,296	-	-	-	-
155 Prepaid Expense	-	1,793	-	-	-
Total Assets	\$ 11,758	\$ 537,210	\$ 3,292	\$ 131,649	\$ 39,913
Liabilities and Fund Balances					
<i>Liabilities</i>					
202 Accounts Payable	\$ 518	\$ 3,584	\$ -	\$ -	\$ -
215 Accrued Interest Payable	-	-	-	-	-
216 Accrued Wages Payable	-	8,663	-	-	-
217 Accrued Taxes Payable	167	-	-	-	-
Total Liabilities	685	12,247	-	-	-
<i>Fund Balances</i>					
<i>Reserved Fund Balances</i>					
261.16 Reserved for Long-Term Notes Receivable	-	-	-	-	-
261.16 Reserved for Endowment	-	-	-	-	-
261.99 Reserved for Inventory	4,296	-	-	-	-
261.99 Reserved for Prepaid Expense	-	1,793	-	-	-
<i>Unreserved Fund Balances</i>					
262.01 Designated for Next Year's Appropriations	-	122,826	-	-	37,468
262.01 Designated for Library Long-Term	-	-	-	-	-
262.09 Undesignated	6,777	400,344	3,292	131,649	2,445
Total Fund Balances	11,073	524,963	3,292	131,649	39,913
Total Liabilities and Fund Balances	\$ 11,758	\$ 537,210	\$ 3,292	\$ 131,649	\$ 39,913

CITY OF STURGIS

COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2008

		GO Refunding Bonds Fund	Capital Projects Fund	Community Projects Fund	Alice W. Dunn Fund	DARE Fund
Assets						
104	Interest Bearing Accounts	\$ 9,358	\$ 241,196	\$ 71,821	\$ 83,033	\$ 5,707
105	Savings Certificates	-	-	-	339,535	-
108	Sales Tax Receivable	-	-	-	-	-
115	Accounts Receivable	-	-	-	-	-
116	Estimated Uncollectible Accounts Receivable	-	-	-	-	-
128	Notes Receivable	-	-	-	-	-
135	Interest Receivable	-	-	-	761	-
142	Inventory of Supplies Purchased for Resale	-	-	-	-	-
155	Prepaid Expense	-	-	-	-	-
Total Assets		\$ 9,358	\$ 241,196	\$ 71,821	\$ 423,329	\$ 5,707
Liabilities and Fund Balances						
<i>Liabilities</i>						
202	Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
215	Accrued Interest Payable	11,143	-	-	-	-
216	Accrued Wages Payable	-	-	-	-	-
217	Accrued Taxes Payable	-	-	-	-	-
Total Liabilities		11,143	-	-	-	-
<i>Fund Balances</i>						
<i>Reserved Fund Balances</i>						
261.16	Reserved for Long-Term Notes Receivable	-	-	-	-	-
261.16	Reserved for Endowment	-	-	-	239,535	-
261.99	Reserved for Inventory	-	-	-	-	-
261.99	Reserved for Prepaid Expense	-	-	-	-	-
<i>Unreserved Fund Balances</i>						
262.01	Designated for Next Year's Appropriations	-	-	-	-	-
262.01	Designated for Library Long-Term	-	-	-	100,000	-
262.09	Undesignated	(1,785)	241,196	71,821	83,794	5,707
Total Fund Balances		(1,785)	241,196	71,821	423,329	5,707
Total Liabilities and Fund Balances		\$ 9,358	\$ 241,196	\$ 71,821	\$ 423,329	\$ 5,707

<u>Special Sanitation Fund</u>	<u>Revolving Loan Fund</u>	<u>Library Fund</u>	<u>Water Shed Project Fund</u>	<u>UDAG Fund</u>
\$ 264,854	\$ 327,182	\$ 85,160	\$ 278,951	\$ 7,678
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	101,275	-	-	816,658
-	-	-	-	-
-	-	-	-	-
<u>\$ 264,854</u>	<u>\$ 428,457</u>	<u>\$ 85,160</u>	<u>\$ 278,951</u>	<u>\$ 824,336</u>

\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-

-	101,275	-	-	816,658
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
22,077	-	20,000	-	7,678
-	-	-	-	-
242,777	327,182	65,160	278,951	-
<u>264,854</u>	<u>428,457</u>	<u>85,160</u>	<u>278,951</u>	<u>824,336</u>
<u>\$ 264,854</u>	<u>\$ 428,457</u>	<u>\$ 85,160</u>	<u>\$ 278,951</u>	<u>\$ 824,336</u>

CITY OF STURGIS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Brick Fund</u>	<u>Ambulance Service Fund</u>	<u>Mayor's Ride Fund</u>	<u>Special Sales Tax Fund</u>
Revenue:				
311 General Property Taxes	\$ -	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	-	-	-	223,216
334 State Grant	-	-	-	-
341 General Government	-	-	45,400	-
342 Public Safety	-	-	-	-
344 Sanitation	-	-	-	-
346 Culture and Recreation	-	-	-	-
347 Ambulance	-	586,801	-	-
349 Other	36,665	-	-	-
361 Earnings on Deposits and Investments	196	6,172	367	1,534
367 Contributions and Donations - Private Sources	-	1,500	152	100
369 Other	-	100	-	-
Total Revenue	36,861	594,573	45,919	224,850
Expenditures:				
411 Legislative	-	-	47,837	-
421 Police	-	-	-	-
430 Highways and Streets	-	-	-	-
432 Sanitation	-	-	-	-
446 Ambulance	-	428,541	-	-
455 Library	-	-	-	-
459 Community Center	-	-	-	-
460 Conservation and Development	42,730	-	-	225,775
470 Debt Service	-	-	-	-
485 Capital Outlays	-	125,497	-	-
490 Other	-	-	-	-
Total Expenditures	42,730	554,038	47,837	225,775
Excess of Revenue Over (Under) Expenditures	(5,869)	40,535	(1,918)	(925)
Other Financing Sources (Uses):				
391.1 Transfers In	-	-	-	-
391.4 Compensation for Loss or Damage to Capital Assets	-	390	-	-
392.2 Sale of Bonds	-	-	-	-
511 Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	390	-	-
Net Change in Fund Balances	(5,869)	40,925	(1,918)	(925)
Fund Balance, January 1, 2008	16,942	484,038	5,210	132,574
Fund Balance, December 31, 2008	\$ 11,073	\$ 524,963	\$ 3,292	\$ 131,649

Perpetual Maintenance <u>Fund</u>	Community Center Children's <u>Fund</u>	Total Nonmajor Governmental <u>Funds</u>
\$ 138,156	\$ 1,271	\$ 2,061,786
-	-	339,535
-	-	5,166
-	-	543,551
-	-	(378,403)
-	-	917,933
-	-	761
-	-	4,296
-	-	1,793
<u>\$ 138,156</u>	<u>\$ 1,271</u>	<u>\$ 3,496,418</u>

\$ -	\$ -	4,102
-	-	11,143
-	-	8,663
12	-	179
<u>12</u>	<u>-</u>	<u>24,087</u>

-	-	917,933
50,000	-	289,535
-	-	4,296
-	-	1,793
-	-	210,049
-	-	100,000
88,144	1,271	1,948,725
<u>138,144</u>	<u>1,271</u>	<u>3,472,331</u>
<u>\$ 138,156</u>	<u>\$ 1,271</u>	<u>\$ 3,496,418</u>

CITY OF STURGIS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES (CONTINUED)
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	GO Refunding Bonds Fund	Sales Tax Refunding Bond Fund	2003 Revenue Bonds Fund	2005 Revenue Bonds Fund	2006 Revenue Bonds Fund
Revenue:					
311 General Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	-	-	-	-	-
334 State Grant	-	-	-	-	-
341 General Government	-	-	-	-	-
342 Public Safety	-	-	-	-	-
344 Sanitation	-	-	-	-	-
346 Culture and Recreation	-	-	-	-	-
347 Ambulance	-	-	-	-	-
349 Other	-	-	-	-	-
361 Earnings on Deposits and Investments	62	-	-	-	-
367 Contributions and Donations - Private Sources	-	-	-	-	-
369 Other	-	-	-	-	-
Total Revenue	62	-	-	-	-
Expenditures:					
411 Legislative	-	-	-	-	-
421 Police	-	-	-	-	-
430 Highways and Streets	-	-	-	-	-
432 Sanitation	-	-	-	-	-
446 Ambulance	-	-	-	-	-
455 Library	-	-	-	-	-
465 Community Center	-	-	-	-	-
460 Conservation and Development	-	-	-	-	-
470 Debt Service	361,972	372,104	8,097	18,237	8,404
485 Capital Outlay	-	-	-	-	-
490 Other	-	-	-	-	-
Total Expenditures	361,972	372,104	8,097	18,237	8,404
Excess of Revenue Over (Under) Expenditures	(361,910)	(372,104)	(8,097)	(18,237)	(8,404)
Other Financing Sources (Uses):					
391.1 Transfers In	362,173	449,762	17,530	18,567	-
391.4 Compensation for Loss or Damage to Capital Assets	-	-	-	-	-
392.2 Sale of Bonds	-	-	-	-	-
511 Transfers Out	-	(642,220)	-	-	(32,159)
Total Other Financing Sources (Uses)	362,173	(192,458)	17,530	18,567	(32,159)
Net Change in Fund Balances	263	(564,562)	9,433	330	(40,563)
Fund Balance, January 1, 2008	(2,048)	564,562	(9,433)	(330)	40,563
Fund Balance, December 31, 2008	\$ (1,785)	\$ -	\$ -	\$ -	\$ -

<u>Bike Path Fund</u>	<u>Special Sanitation Fund</u>	<u>Revolving Loan Fund</u>	<u>Library Fund</u>	<u>Water Shed Project Fund</u>	<u>Cert Police Grant Fund</u>	<u>Citizens Corp Police Grant Fund</u>	<u>UDAG Fund</u>	<u>Murray Paving</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	552	-	-	-
-	-	-	-	-	-	-	-	-
-	129,575	-	-	-	-	-	-	-
-	-	-	4,000	-	-	-	-	-
-	-	-	-	-	-	-	-	-
760	5,116	10,303	1,719	5,307	36	-	12,530	-
-	-	-	475	-	-	-	-	-
-	-	-	-	-	-	-	-	-
760	134,691	10,303	6,194	5,307	588	-	12,530	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	2,219	1,960	-	-
-	117,941	-	-	-	-	-	-	9,971
-	-	-	-	-	-	-	-	-
-	-	-	19,816	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	117,941	-	19,816	-	2,219	1,960	-	9,971
760	16,750	10,303	(13,622)	5,307	(1,631)	(1,960)	12,530	(9,971)
-	-	30,000	-	-	-	-	-	-
-	-	22,401	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	(30,000)	-
-	-	52,401	-	-	-	-	(30,000)	-
760	16,750	62,704	(13,622)	5,307	(1,631)	(1,960)	(17,470)	(9,971)
39,153	248,104	365,753	98,782	273,644	1,631	1,960	841,806	9,971
\$ 39,913	\$ 264,854	\$ 428,457	\$ 85,160	\$ 278,951	\$ -	\$ -	\$ 824,336	\$ -

<u>TIF Funds</u>	<u>Capital Projects Fund</u>	<u>Community Projects Fund</u>	<u>Alice W. Dunn Fund</u>	<u>DARE Fund</u>	<u>Perpetual Maintenance Fund</u>	<u>Community Center Children's Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 470,980	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 470,980
-	-	-	-	-	-	-	223,216
-	-	-	-	-	-	-	552
-	-	-	-	-	-	-	45,400
-	-	-	-	50	-	-	50
-	-	-	-	-	-	-	129,575
-	-	-	-	-	-	-	4,000
-	-	-	-	-	-	-	586,801
-	-	-	-	-	-	-	36,665
10	5,534	682	17,262	122	-	22	67,734
-	-	-	-	-	-	400	2,627
-	-	-	-	-	6,600	-	6,700
470,990	5,534	682	17,262	172	6,600	422	1,574,300
-	-	-	-	-	-	-	47,837
-	-	-	-	1,698	-	-	5,877
-	-	-	-	-	-	-	9,971
-	-	-	-	-	-	-	117,941
-	-	-	-	-	-	-	428,541
-	-	-	-	-	-	-	19,816
-	-	-	-	-	-	250	250
-	-	-	-	-	-	-	268,505
349,911	-	-	-	-	-	-	1,118,725
256,800	-	-	-	-	-	-	382,297
151,797	-	-	-	-	-	-	151,797
758,508	-	-	-	1,698	-	250	2,551,557
(287,518)	5,534	682	17,262	(1,526)	6,600	172	(977,257)
-	-	-	-	-	-	-	878,032
-	-	-	-	-	-	-	22,791
406,000	-	-	-	-	-	-	406,000
(149,200)	-	-	-	-	-	-	(853,579)
256,800	-	-	-	-	-	-	453,244
(30,718)	5,534	682	17,262	(1,526)	6,600	172	(524,013)
30,718	235,662	71,139	406,067	7,233	131,544	1,099	3,996,344
\$ -	\$ 241,196	\$ 71,821	\$ 423,329	\$ 5,707	\$ 138,144	\$ 1,271	\$ 3,472,331

CITY OF STURGIS

SCHEDULE OF RALLY ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

Revenue

	<i>Taxes:</i>	
313	General Sales and Use Taxes	\$ 321,342
320	Licenses and Permits	252,325
	<i>Charges for Goods and Services:</i>	
341	General Government	738,878
Total Revenue		1,312,545

Expenditures

	<i>General Government:</i>	
414	Financial Administration	42,591
419	Other	581,648
	<i>Public Safety:</i>	
421	Police	307,501
422	Fire	7,448
	<i>Public Works:</i>	
431	Highway and Streets	10,124
	<i>Culture and Recreation:</i>	
451	Recreation	19,884
452	Parks	11,798
Total Expenditures		980,994

Excess of Revenue Over Expenditures		\$ 331,551
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Sturgis
Sturgis, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF STURGIS** (the City) as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Auditor's Comments and Closing Conference as 08-1, 08-2, 08-3, 08-4 and 08-5 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 08-1 and 08-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, Common Council, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

October 1, 2009

CITY OF STURGIS

AUDITOR'S COMMENTS AND CLOSING CONFERENCE FOR THE YEAR ENDED DECEMBER 31, 2008

A. Status of Prior Audit Findings and Recommendations

The City has made some effort to improve the segregation of duties, record year-end adjustments, and reduce the number of funds where feasible. Therefore, findings 07-1, 07-3, and 07-4 will be repeated for the year ending December 31, 2008.

The City does not consider the additional costs of preparing its financial statements to be necessary, so the finding 07-2 will be repeated for the year ending December 31, 2008.

Administration is aware that the budgeting process needs to be more diligent in completing supplemental appropriations, when necessary. Finding 07-5 will be repeated for the year ending December 31, 2008.

B. Findings – Financial Statement Audit

SIGNIFICANT DEFICIENCIES – MATERIAL WEAKNESSES

08-1 FINDING: Financial Statement Preparation

Finding and Analysis: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do this with municipalities of your size. However, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the City's statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations

Response/Corrective Action Plan: At this time, the City will accept the degree of risk that is associated with this condition. For future audits, we will continue to monitor the financial statement preparation and determine if any modification can be done to the procedure. The Finance Officer is responsible for the corrective action plan for this finding.

08-2 FINDING: Internal Control over Significant Accounts

Finding and Analysis: During the course of our engagement, we proposed material audit adjustments that resulted in a \$420,165 increase in reported net income. Adjustments included adjusting long-term debt, adjusting federal revenues, adjusting receivables and related allowance accounts, and adjusting the capital asset accounts. In addition, entries were proposed as a part of the audit, but were not recorded due to the overall insignificance on the financial statements. These adjustments would not have been identified as a result of the City's existing internal controls, and therefore, could have resulted in a material misstatement of the Company's financial statements.

CITY OF STURGIS

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2008**

B. Findings – Financial Statement Audit (Continued)

SIGNIFICANT DEFICIENCIES – MATERIAL WEAKNESSES (CONTINUED)

08-2 FINDING: Internal Control over Significant Accounts (Continued)

Recommendation: We recommend that management consider the following:

- a. Capital asset accounts, including depreciation, should be reconciled to the depreciation schedules at least annually.
- b. Accounts receivable accounts should be reconciled to subsidiaries and evaluated for need of an allowance change at least annually.
- c. Long-term debt should be adjusted at least annually.

Response/Corrective Action Plan: The City will make every effort to make the proper accounting adjustments and will do this in a timely manner throughout the year. The Finance Officer is responsible for the corrective action plan for this finding.

SIGNIFICANT DEFICIENCIES – NOT MATERIAL WEAKNESSES

08-3 FINDING: Segregation of Duties

Finding and Analysis: Proper segregation of duties assures adequate internal control over safeguarding of assets and the reliability of financial records and reporting. The City has a lack of segregation of duties in various areas. More specifically:

- a. The Water Clerks have the ability to post adjustments to customer accounts; therefore, they can misappropriate payments without alarming the utility customer. The Finance Officer receives the adjustment reports, but did not review the report during the year.
- b. The administrative assistant at the ambulance service prepares billing information, handles collections, and receives payments.
- c. The Rally assistant prepares billings, handles collections, and receives payment.
- d. The water department and the finance office use two different software packages. This requires manual adjustments for the daily deposits from the water department. Differences may result between the two systems due to human error. We noted a variance between the general ledger accounts receivable balance for utilities versus the water department software subsidiaries, which could not be explained.
- e. The City began using direct deposit for all employees in 2008. The Finance Officer or City Manager review only a summary payroll report of the direct deposit, which includes no detail of the employee's names, pay rates, or hours worked. Therefore, the assistant finance officer in charge of payroll enters pay rates, enters direct deposit information, enters hours worked, and submits the direct deposit without any review. During our payroll testing we noted that one employee was overpaid by \$242.05. The 3% raise was applied on a retroactive basis, rather than on a going-forward basis, which resulted in this overpayment.
- f. The City has no process to certify/accept capital contributions specifically associated with tax increment districts. Therefore, capital assets are not properly recorded when contributed.
- g. The liquor store inventory listing, the bank reconciliation, and the accounts payable listing did not agree to the general ledger at year-end by insignificant amounts.

Recommendation:

- a. The Water Superintendent or Finance Officer should review an adjustments report from the water billing system once per month. Proper explanations should be obtained for unusual adjustments.
- b. The ambulance administrative assistant should not receive payments. Payments should be received at the finance office, and a list of payments received should be given to the ambulance administrative assistant.

CITY OF STURGIS

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2008**

B. Findings – Financial Statement Audit (Continued)

SIGNIFICANT DEFICIENCIES – NOT MATERIAL WEAKNESSES (Continued)

08-3 FINDING: Segregation of Duties (Continued)

Recommendation (Continued):

- c. The Rally responsibilities of billing and receipting need to be separated. The Rally department payments should be received by the finance office.
- d. The City should consider integrating the software for general ledger and water billing. If two systems are maintained, the water department report should be reviewed prior to posting the journal entry. The general ledger accounts receivable balance should be reconciled to the water department software at least monthly.
- e. The city manager or finance officer should review a detailed direct deposit report including employees, hours worked, pay rates, and net pay that are totaled and match the actual direct deposit withdrawal from the bank account.
- f. The City needs to develop a process to certify/accept capital contributions and capitalize associated assets.
- g. All accounts should be adjusted to match subsidiary listings at least at year-end.

Response/Corrective Action Plan: The City is working on developing a system of maintaining records with more segregation of duties to ensure better internal control. The finance officer is responsible for the corrective action plan for this finding.

08-4 FINDING: Number of Funds

Finding and Analysis: GASB codification section 1300 states that governmental units should establish and maintain those funds required by law and sound financial administration. It also indicates that only the minimum number of funds consistent with legal and operating requirements should be established, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration. The City has a significant number of funds with limited activity.

Recommendation: The City should review its funds to determine that each fund has a legal or operating requirement and close any unnecessary funds.

Response/Corrective Action Plan: The City is reducing the number of funds to only those that are needed for legal or operating requirements. The Finance Officer is responsible for the corrective action plan for this finding.

08-5 FINDING: Budgetary Overdraft

Finding and Analysis: The City has budgetary overdrafts in violation of South Dakota Codified Law 9-21-9, in the following departments:

<u>Fund</u>	<u>Department</u>	<u>Overdraft</u>
General	General Government - Other	\$ 561,263
General	Public Safety - Police	238,841
General	Culture and Recreation - Recreation	206,644
General	Culture and Recreation - Parks	11,798
Capital Improvement	Debt Service	5,430,752

Recommendation: The City in the future should complete supplemental appropriations for unbudgeted expenditures.

CITY OF STURGIS

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2008**

B. Findings – Financial Statement Audit (Concluded)

SIGNIFICANT DEFICIENCIES – NOT MATERIAL WEAKNESSES (Concluded)

08-5 FINDING: Budgetary Overdraft (Continued)

Response/Corrective Action Plan: The City will develop procedures to ensure budget overdrafts are supplemented. The Finance Officer is responsible for the corrective action plan for this finding.